

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6087

BILL NUMBER: HB 1014

NOTE PREPARED: Nov 23, 2012

BILL AMENDED:

SUBJECT: Income Tax Credit for Specialty Drugs.

FIRST AUTHOR: Rep. Brown T

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: ☒ **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill provides a refundable Individual Income Tax Credit to taxpayers whose copayment or coinsurance amount in a particular year for specialty drugs exceeds 8% of their federal adjusted gross income (FAGI) for that year. The bill defines a "specialty drug" as a drug that meets the following conditions:

- The amount of coinsurance or copayments paid for the drug is more than \$600 per month.
- The drug is included in a specialty pricing group or tier.
- The drug typically requires special handling, a high degree of patient counseling, and is used to treat a chronic condition.

(The introduced version of this bill was prepared by the Health Finance Commission.)

Effective Date: January 1, 2013 (retroactive).

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR will be required to modify forms, instructions, and software programs to administer the proposed tax credit. The DOR should have sufficient resources to implement the changes contained within the bill.

Explanation of State Revenues: *Summary* - The Speciality Drug Tax Credit equals the difference between the total copayments paid during the taxable year and 8% of the taxpayer's federal Adjusted Gross Income (FAGI). The taxpayer must meet all the eligibility conditions within the bill to claim the credit. The tax credit could potentially reduce revenue from the Individual Adjusted Gross Income (AGI) Tax by an estimated \$17.1 M to \$43.3 M per year beginning in FY 2014.

The tax credit is refundable and can be used to offset Individual AGI Tax liabilities. The revenue loss would be equal to the amount of credits claimed. Revenue collected from the Individual AGI Tax is deposited in the General Fund.

Background - This bill creates the Speciality Prescription Drug Tax Credit. The credit is established to help families pay for expensive prescription drugs needed to treat chronic conditions. The credit can be taken by households who spend over \$600 a month, \$7,200 annually, in copayments on prescription medications included in a speciality pricing tier by their insurance company and the total annual copayments exceed 8% of the household FAGI. The credit equals the difference between total annual copayments on the qualified prescription drugs and 8% of the household FAGI.

The Medical Expenditure Panel Survey (MEPS) 2010 Consolidated File was the primary medical expense data source used to estimate the fiscal impact of this bill. MEPS is a set of large-scale surveys conducted by the U.S. Department of Health and Human Services of households, medical providers, and employers across the United States. MEPS collects data on the cost and use of health care and health insurance coverage. The MEPS 2010 Consolidated File contains information on family income, insurance coverage, medical conditions, total medical expenses, prescribed medications, total prescription costs, and prescription copayments. The file contains individual level data for 32,846 people from 11,734 households.

The lower bound of the revenue impact estimate was derived by applying MEPS data to the Internal Revenue Service Statistics of Income (SOI) information. The federal Individual Income Tax contains a deduction for medical and dental expenses that exceed 7.5% of the taxpayer's FAGI. The SOI preliminary table for tax year 2010 shows the average federal medical deduction claimed was \$8,008, and it was claimed on 10.4 million tax returns. Approximately, 2.1% of all federal returns are filed by Indiana residents, so an estimated 216,000 federal medical deduction claimants were Indiana residents.

This population needs further refinement because the federal medical deduction applies to a wider range of medical expenses and has a different income threshold than the proposed Speciality Prescription Drug Tax Credit. According to the MEPS data, 1.24% of the taxpayers who would qualify for the federal medical deduction could also qualify for the Speciality Prescription Drug Tax Credit. Of the families that spend more than \$7,200 in prescription drug copayments, those payments represent 79.6% of their total household out-of-pocket medical expenses. Based on this research, the Speciality Prescription Drug Tax Credit could potentially be claimed by an estimated 2,670 households and result in an estimated revenue loss of \$17.1 M.

The upper bound of the revenue impact estimate was estimated by applying the analysis of the MEPS file directly to 2010 Indiana Individual AGI Tax returns. Out of 11,734 households in the MEPS file, 2,497 of the surveyed households are located in the Midwest. A total of 0.20% of the Midwest households meet all the eligibility criteria where:

- The household had either private or public insurance.
- The annual prescription drug copayments were greater than \$7,200 in one year.
- The total annual prescription drug copayments were above 8% of the household FAGI.

The MEPS data was used to estimate the amount of Speciality Prescription Drug Tax Credit each household could claim. Based on the findings from MEPS, the Speciality Prescription Drug Tax Credit could potentially be claimed by 6,152 households for an estimated revenue loss of \$43.3 M.

The estimated fiscal impact of this bill relies on two main assumptions. First, this estimate assumes the national level statistics and survey information from MEPS are applicable to Indiana taxpayers. Second, households who pay over \$7,200 a year in prescription drug copayments are prescribed a drug within the specialty medication tier of their insurance coverage. Each insurance company may classify medications differently, and there is not sufficient information to separate specialty tier medications from medications in lower price tiers. The actual revenue lost from this tax credit could be lower to the extent that the taxpayers are using prescription medications that would not qualify as a specialty drug.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: LSA Income Tax Database; MEPS 2010 Full-Year Consolidated Data File; Internal Revenue Service SOI, Tax Year 2010, Table 1 and Table 2.

Fiscal Analyst: Heath Holloway, 232-9867.